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... Management Funct  
... Hospitals

... for Improving Hospita  
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## C o n t e n t s

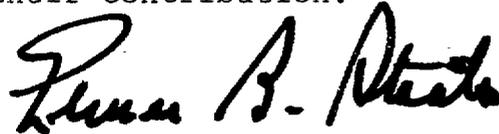
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## FOREWORD

Our study of purchasing and other materials management functions in short term, general purpose hospitals disclosed a need to give hospitals guidance in evaluation and improving their systems. We have responded to this need by developing a checklist and an audit guide.

We developed the checklist and the audit guide from our study of 21 short term, general purpose hospitals. The checklist and audit guide are generally considered to be sound procurement and materials management principles which should be considered and adopted to the extent practical. We are publishing the checklist and audit guide separately to facilitate their use as evaluation tools. They are practical and flexible tools that can be used together or separately to improve materials management systems, contain costs, and increase public confidence.

Throughout our study, we received assistance and cooperation from officials of the American Hospital Association, several purchasing groups, and 21 participating hospitals. We greatly appreciate their contribution.



Comptroller General  
of the United States



**AMERICAN HOSPITAL ASSOCIATION**

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March 1, 1979

The Honorable Elmer B. Staats  
Comptroller General of the United States  
United States General Accounting Office  
441 G. Street, N.W.  
Washington, DC 20548

Dear Mr. Staats

The American Hospital Association appreciates the opportunity to have assisted the United States General Accounting Office in a project to develop constructive guidance for improving the materials management functions in our nation's hospitals. We thank you for providing a copy of the draft report for our review and comment. The draft report was reviewed by both an advisory committee representative of hospital purchasing and materials management and by association staff with expertise in materials management and financial management.

The report generally reflects existing practices at the test-site hospitals and presents a fair and accurate assessment of current purchasing practices in short-term, general-purpose hospitals nationally. The tone of the report and its recommendations are constructive rather than critical, a factor which should enhance its receptivity by those professionals involved in managing or evaluating hospital materials management.

The checklist and audit guide, used in a positive and constructive manner, can be of significant value and utility in evaluating and improving a hospital's materials management function. Therefore, we encourage hospital administrators, materials managers, purchasing agents and others to consider the use of the checklist and audit guide as appropriate guidelines for the self-review of the purchasing and materials management functions. Proper use of the results of this self-review can lead to significant improvements in the effectiveness and efficiency of these important hospital functions.

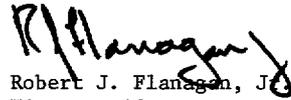
CABLE ADDRESS AMHOSP

Elmer B. Staats/2

March 1, 1979

Once again, thank you for the opportunity to have participated in a project designed to provide constructive guidance for improving the materials management functions in our nation's hospitals.

Very truly yours

A handwritten signature in black ink, appearing to read "R. Flanagan, Jr.", written over the typed name.

Robert J. Flanagan, Jr., D.B.A., C.P.A.  
Vice President

GUIDELINES FOR USING  
CHECKLIST FOR EVALUATING MATERIALS  
MANAGEMENT FUNCTIONS IN PRIVATE HOSPITALS

This review of operational controls in the purchasing area involves a comparison of your existing practices to those practices considered "preferred." The checklist has been designed so that a "yes" answer indicates the existence of an acceptable materials management practice whereas a "no" response indicates areas where improvement may be desirable. Since this checklist contains those practices generally considered to evidence sound controls and accountability, a "no" answer should be treated with deliberation. Where a "no" answer is encountered, a search must be made for other controls which fully compensate for the potential deficiency. In many instances a compensating control may exist, and it should be indicated in the explanation column. Where one does not exist, the potential deficiency should be analyzed with respect to its possible impact on costs and controls.

In considering whether to correct a deficiency, the item should be evaluated from the viewpoint of the relationship of cost to benefit. While it is usually not difficult to measure the cost of the particular control or system change, it is often very difficult to measure the benefit of the procedure. Furthermore, there are usually numerous tradeoffs which should be considered among the various system changes which might be implemented. Nevertheless, where there is a "no" answer to a checklist item, and there appears to be a significant operational impact, the impact in dollars of increased cost should be evaluated.

For example, if a "no" answer were to be given in response to a question of whether the hospital uses a systematic stocking program to reduce the volume of requisitions, techniques might be employed to determine the cost of overstocking or the cost of understocking because of (a) lost quantity discounts, (b) excessive prices, (c) overtime, and (d) inability to meet an inhouse requisition necessitating a special order. The same techniques might be used if a "no" answer was indicated in the response to a question of whether economic order quantities are being used. Another instance in which these techniques might be used would be in analyzing a "no" response to a question of whether competitive bids are obtained from vendors. In this instance an attempt should be made to quantify the loss

associated with noncompetitive buying by measuring the differences between the unit prices charged by the lowest price-qualified vendor to that which was actually paid. Certain other checklist items are not conducive to precise cost comparisons and must be evaluated in terms of significance.

Regardless of the checklist item, since a "no" response indicates the potential for a deficiency from a preferred materials management practice, each "no" answer must be specifically evaluated. Those which have compensating controls or relatively insignificant impact may be eliminated from further analysis. The remaining potential deficiencies should be evaluated and prioritized as to those most requiring correction. In this latter phase the dollar or control impact on the system as well as available dollar and manpower resources of the organization should be considered. The checklist contains many ideal practices which an institution should strive to implement as time, dollar resources, manpower, operational efficiencies and necessity dictate.

CHECKLIST FOR EVALUATING MATERIALS MANAGEMENT  
FUNCTIONS IN PRIVATE HOSPITALS

	Comments	
<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
<b>I. AUTHORITY AND RESPONSIBILITY</b>		
A. Does one department or official, such as a materials manager, centrally manage and supervise purchasing, inventory, and supply distribution?	_____	_____
B. If yes, is that department or official responsible for:		
1. All supplies and equipment including food and pharmaceuticals?	_____	_____
2. All contract services?	_____	_____
C. Is there a written policy statement:		
1. Describing objectives for purchasing, inventory management and supply distribution	_____	_____
2. Centralizing management of purchasing, inventory and supply distribution?	_____	_____
3. Delegating purchasing, inventory, and supply distribution functions to other departments, and monitoring and controlling delegated functions?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

Topics & Questions

Yes      No

4. Covering a code or standard of conduct governing the performance of purchasing and supply personnel as well as contractors?

\_\_\_\_\_

II. PURCHASING

- A. Are there written instructions for central and departmental purchasing?

\_\_\_\_\_

1. If so, do they specify procedures for purchases of supplies, equipment, and contract services?

\_\_\_\_\_

- B. Do the written instructions require:

1. Issuing purchase orders for all purchases?

\_\_\_\_\_

2. Pre-numbering and controlling purchase orders?

3. Purchasing nonstock items only after receipt of properly authorized departmental requisitions?

\_\_\_\_\_

4. Controlling and monitoring emergency requisitions and purchases?

\_\_\_\_\_

Comments  
 Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
5. Separating the duties of purchasing, receiving, storing, and charging (preparing the charge sheets)?	_____	_____
6. Sending copies of the purchase orders and receiving reports to the accounting department for invoice verification?	_____	_____
7. Preparing a return goods memo, which states the amount of credit expected, for all goods returned to the vendor for credit and sending a copy to the accounting department?	_____	_____
C. For capital items or equipment, do the written instructions:	_____	_____
1. Define a capital item?	_____	_____
2. Set out the internal requisitioning procedures?	_____	_____
3. Require written justifications?	_____	_____
4. Require estimates of expected return or pay-back of revenue producing equipment?	_____	_____
5. Require approval by the administrator and/or board of directors?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>(Provide data on "yes" answers. Explain "no" answers)</u>	
	<u>Yes</u>	<u>No</u>
6. Require lease vs. purchase comparisons?	_____	_____
D. Do the written instructions:		
1. Promote maximum use of competitive procedures?	_____	_____
2. Provide for the receiving, controlling, opening, and evaluating of bids?	_____	_____
3. Specify that purchases (capital and noncapital) over a certain dollar amount be advertised for competitive bids?	_____	_____
4. Require evaluations to determine whether it is more economical to perform services in-house than to contract?	_____	_____
5. Stipulate conditions under which blanket purchase orders may be used?	_____	_____
6. Provide special procedures for noncompetitive purchases?	_____	_____
E. Does the central manager or purchasing department:		
1. Maintain a list of prospective vendors?	_____	_____
2. Maintain written product and performance criteria for prescreening vendors?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
3. Award contracts for at least a 1-year period to obviate frequent rebidding?	_____	_____
4. Maintain a bid record to help identify collusion among bidders?	_____	_____
5. Control over all contracts and warranties?	_____	_____
6. Maintain records of purchase order or contract numbers, vendors, quantities, and prices?	_____	_____
F. Does the central manager or the purchasing department:		
1. Monitor departmental purchase requisitions for opportunities for consolidation, substitution, standardization, etc.?	_____	_____
2. Monitor usage histories for changes in demand?	_____	_____
3. Forecast future needs?	_____	_____
4. Monitor the purchases made by departments such as dietary, pharmacy, laboratory, and radiology?	_____	_____
5. Purchase directly from manufacturers when possible?	_____	_____
6. Take advantage of volume discounts?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
7. Monitor outstanding purchase orders?	_____	_____
8. Initiate and monitor cost recovery programs, e.g. reclamation on silver from X-ray film processing?	_____	_____
G. Does the hospital participate in group purchasing: If so,		
1. Does purchasing decide whether to buy independently or under group agreements?	_____	_____
2. Are specific criteria available for determining which items will be purchased under group agreements?	_____	_____
3. Are savings and other benefits from group purchasing evaluated?	_____	_____
4. Are group prices periodically compared with those of other sources?	_____	_____
5. Where the hospital has a choice of purchasing groups, are potential savings compared for representative items?	_____	_____
6. Is there a list of group contracts and the items offered under them?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
H. Are records kept of:		
1. High dollar value items?	_____	_____
2. Major supply sources?	_____	_____
3. Emergency supply sources?	_____	_____
4. Order frequencies?	_____	_____
5. Vendor performance?	_____	_____
6. Product performance?	_____	_____
I. Is there a product evaluation and standardization committee?	_____	_____
1. Does a written statement define its responsibilities, membership, and functions?	_____	_____
2. Are formal minutes of the meetings filed?	_____	_____
3. Are medical staff, administration, pharmacy, nursing, materials management, and fiscal management all represented?	_____	_____
4. Are acceptable product and equipment standards and specifications obtained or written for each item considered?	_____	_____
5. Are value analysis techniques used?	_____	_____

(Provide data on "yes" answers. Explain "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
6. Are the committee's decisions communicated to the hospital staff?	_____	_____
<b>III. INVENTORY MANAGEMENT</b>		
A. Does one department control hospital inventories, including departmental "floor" stocks?	_____	_____
B. Is there a central storeroom from which departments requisition supplies?	_____	_____
1. Are there written procedures for the organization and operation of central stores (including requisitioning and distributing stock items)?	_____	_____
2. Is access to the storeroom area restricted to supply personnel?	_____	_____
3. Are properly authorized requisitions required for obtaining items from central stores?	_____	_____
4. Is there a stock numbering system?	_____	_____
5. Is there a catalog of centrally stored items?	_____	_____
6. Are major items such as intravenous solutions, X-ray film, and sutures stocked in central stores?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>(Provide data on "yes" answers, Explain "no answers)</u>	
	<u>Yes</u>	<u>No</u>
a. If not, are inventories of these items controlled by a central manager?		
7. Is there a list of inventory items which have expiration dates and are these items reviewed regularly?	_____	_____
8. Is the inventory reviewed periodically to remove static, slow-moving, or obsolete items?	_____	_____
9. Is the stock properly rotated?	_____	_____
10. Are there controls against pilferage?	_____	_____
11. Is there adequate storage space?	_____	_____
C. Are annual physical inventories reconciled with accounting department control accounts?	_____	_____
1. Is the physical inventory taken or supervised by a member of another department (such as the accounting department)?	_____	_____
2. Is the physical inventory verified by the hospital's external auditors?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
D. Does a central manager have responsibility for the inventory - determining safety stock levels, reorder points, and order quantities of each item? <u>1/</u>	_____	_____
E. Do perpetual inventory records show receipts, issues, and inventory balances for each stock item?	_____	_____
1. Are these records kept by people other than those with access to the inventory?	_____	_____
2. Are the perpetual inventory balances periodically compared to the actual stock and are discrepancies investigated, corrected, and documented?	_____	_____

---

1/ These three factors are the elements of the "order point" control system. Another acceptable inventory system is the "periodic" control system. Under the periodic system, stocks are reviewed and orders are placed at fixed intervals. (E.g., orders will be placed once a month for a certain item.) The order quantities, however, vary and depend on a predetermined maximum level. The checklist questions refer to the order point system. In the questions, if the hospital uses the periodic system, change "reorder points" to "review periods" and change "order quantities" to "maximum quantities."

		<u>Comments</u>	
		Provide data on "yes" answers. Explain "no" answers)	
<u>Topics &amp; Questions</u>		<u>Yes</u>	<u>No</u>
F.	Is ABC analysis used as a guide in setting safety stock levels? ("A" items are high dollar-value items, "B" the middle dollar-value items, and "C" the low dollar-value items)?	_____	_____
G.	Are supplier leadtime and the leadtime demand analyzed when reorder points are set?	_____	_____
H.	Is economic order quantity theory applied?	_____	_____
IV. SUPPLY DISTRIBUTION--MEDICAL SURGICAL SUPPLIES			
A.	Does the storeroom distribute all medical-surgical supplies directly to user departments?	_____	_____
B.	If not,		
	1. Are medical-surgical supplies stocked and distributed by central supply or other departments?	_____	_____
	2. Has the hospital considered consolidating inventories and distribution functions of central supply and central stores departments?	_____	_____
C.	Are there medical-surgical supplies stored in nursing stations and other departments carried as inventory?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
D. Do centralized distribution systems, such as PAR level or exchange carts, control medical-surgical supplies issued to nursing stations and other units?	_____	_____
E. If centralized distribution systems are used:		
1. Are stock levels established by a central manager?	_____	_____
2. Are stock levels based on an analysis of usage or a forecast of future needs?	_____	_____
3. Are stock levels periodically reviewed and revised?	_____	_____
4. Are requests for additional medical-surgical supplies monitored?	_____	_____
F. If supply distribution is accomplished by departmental requisitions:		
1. Are departmental inventory levels and reorder points established by a central manager?	_____	_____
2. Are floor stocks monitored for stockpiling, obsolescence, and waste?	_____	_____
3. Are floor stocks included in periodic physical inventories?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>Yes</u>	<u>No</u>
4. Has management considered establishing a centralized distribution system?	_____	_____
G. Is each department and nursing station charged for the supplies used?	_____	_____
H. Do written procedures require that all patient chargeable medical-surgical items be controlled and distributed by one department?	_____	_____
I. Is this department accountable for revenue earned and expenses incurred for patient chargeable supplies?	_____	_____
J. Are charge slips reconciled with supplies used? If so,	_____	_____
1. Are discrepancies investigated?	_____	_____
2. Are departments accountable for lost charges?	_____	_____
K. Is patient rented equipment stored and issued from a central location?	_____	_____
L. Is this equipment inventoried and numbered for control purposes?	_____	_____
M. Is a log maintained showing the location of equipment in use?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>(Provide data on "yes" answers. Explain "no" answers)</u>	
	<u>Yes</u>	<u>No</u>
N. Do procedures insure that patients are properly charged for equipment used?	_____	_____
O. Is there a consistent markup procedure for patient-chargeable medical-surgical supplies?	_____	_____
P. Does management periodically review the reasonableness of prices and markups?	_____	_____
V. SUPPLY DISTRIBUTION--LINEN		
A. Is a PAR level or exchange cart system used for distributing linen? If so,	_____	_____
1. Are department quotas based on usage?	_____	_____
2. Are additional requests for linen monitored?	_____	_____
B. Where requisitions are used,		
1. Are units monitored for excess linen?	_____	_____
2. Has management considered use of PAR level or exchange cart system for linen distribution?	_____	_____
C. Are periodic physical inventories taken of all linen in the hospital?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
D. Are records maintained of linen usage by department?	_____	_____
1. Is department usage monitored for potential misuse of linen?	_____	_____
E. Does management periodically compare the quantity issued with linen returned by departments?	_____	_____
F. Is new linen kept in central stores before use?	_____	_____
G. Are there procedures to control requisitions received after regular working hours?	_____	_____
 VI. PHARMACEUTICAL PURCHASING		
A. If pharmacy staff purchases pharmaceuticals, does the hospital have written instructions for use by the pharmacy?	_____	_____
B. If so, are there specific instructions which:		
1. Cannot be changed without review by the purchasing chief or central manager and approval by top management?	_____	_____
2. Restrict the pharmacy's purchases to pharmaceuticals, requiring it to requisition capital items and supplies through purchasing?	_____	_____
3. Promote maximum use of competition?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>(Provide data on "yes" answers. Explain "no" answers)</u>	
	<u>Yes</u>	<u>No</u>
4. Encourage the pharmacy to purchase generic drugs that are less expensive than brand name drugs?	_____	_____
5. Permit purchases from local retail pharmacies in emergencies only?	_____	_____
C. If pharmaceutical purchases are made by the purchasing department, does the pharmacy:		
1. Maintain a list of drug manufacturers and wholesalers and their local representatives?	_____	_____
2. Maintain a list of emergency sources with special attention to critical items not widely available?	_____	_____
3. Prepare detailed specifications?	_____	_____
4. Prepare requisitions?	_____	_____
5. Prepare receiving reports?	_____	_____
6. Prepare return goods memos for any items returned for credit?	_____	_____
D. Does the pharmacy's written instructions require it to:		
1. Forecast future needs?	_____	_____
2. Record past usage?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>(Provide data on "yes" answers. Explain "no" answers)</u>	
	<u>Yes</u>	<u>No</u>
3. Rank its pharmaceutical items according to annual dollar volume?	_____	_____
E. Does the pharmacy maintain the data needed to effectively manage its purchasing function, such as:		
1. Major high dollar value items?	_____	_____
2. Major supply sources?	_____	_____
3. Emergency supply sources?	_____	_____
4. Quantities purchased and prices for each item?	_____	_____
5. Usage histories?	_____	_____
6. Order frequencies?	_____	_____
7. Vendor performance?	_____	_____
8. Product performance?	_____	_____
F. Does the pharmacy's other written instructions require:		
1. Issuing purchase orders for all purchases, including those from local pharmacies and other hospital?	_____	_____
2. Prenumbering and controlling purchase orders?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
3. Controlling and monitoring emergency purchases?	_____	_____
4. Separating the duties of purchasing, receiving, storing, and charging (preparing the charge sheet)?	_____	_____
5. Sending copies of the purchase orders and receiving reports to the accounting department for invoice verification?	_____	_____
6. Preparing a return goods memo, which states the amount of credit expected, for all goods returned to the vendor for credit and is sending a copy to the accounting department?	_____	_____
G. Does the pharmacy use ABC analysis to identify its high dollar-volume items and to set its priorities for purchasing and controlling pharmaceuticals?	_____	_____
H. Does the pharmacy attempt to minimize its purchasing and inventory costs by:		
1. Systematically establishing reorder points, based on vendor leadtime and safety stock requirements, to minimize inventory on major items?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
2. Using economic order quantity theory to control purchase volume and inventory for major items?	_____	_____
3. Purchasing directly from the manufacturer when volume permits?	_____	_____
4. Taking advantage of volume discounts?	_____	_____
I. Are all pharmaceutical purchases brought directly to the pharmacy receiving area unopened?	_____	_____
J. Are the pharmaceuticals received and a complete receiving report prepared by someone other than the person who placed the order?	_____	_____
K. Does the hospital participate in group pharmaceutical purchasing?	_____	_____
1. Must the pharmacy justify in writing independent purchases of items available through the group?	_____	_____
2. Are these justifications periodically reviewed by management and considered before the group purchasing agreement is renewed?	_____	_____
3. Are group prices periodically compared with other sources?	_____	_____

Comments  
 (provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
4. Where the hospital has a choice of purchasing groups, are potential savings compared for representative pharmaceuticals?	_____	_____
5. Is there a list of group contracts and the items offered under them?	_____	_____
6. Do the documents (E.g., purchase record form, or traveling requisition form) used to record individual purchases indicate the contract (if any) under which the item was purchased?	_____	_____
L. Is there a pharmacy and therapeutics committee responsible for standardizing pharmaceuticals?	_____	_____
1. Does a written statement define its responsibilities, membership, and functions?	_____	_____
2. Are formal minutes of the meetings filed?	_____	_____
3. Does the committee consider and endorse generically equivalent items unless it has evidence for not using them?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u>	
	<u>(provide data on "yes" answers. Explain "no" answers)</u>	
	<u>Yes</u>	<u>No</u>
4. Has the committee developed specific criteria to guide its brand selections?	_____	_____
5. Are the committee's brand selections communicated to the medical staff?	_____	_____
M. Does hospital policy require the pharmacy to competitively contract for its high dollar value pharmaceuticals and product groups?	_____	_____
1. Does purchasing supply technical assistance to the pharmacy in developing competitive procedures and assure they are consistent with hospital policy?	_____	_____
2. Does the pharmacy maintain a list of prospective vendors?	_____	_____
3. Has the pharmacy established written product and performance criteria for prescreening vendors?	_____	_____
4. Is the prescreening based on objective evidence instead of subjective preference (such as those generated by vendor advertising), and documented for future reference?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
5. Are the contracts for at least a 1-year period to obviate frequent rebidding?	_____	_____
6. Does the pharmacy have written procedures for receiving, controlling opening, and evaluating bids?	_____	_____
7. Does the pharmacy maintain a record (such as a bid history) to help identify collusion among bidders ?	_____	_____
8. Is a complete file maintained of current pharmaceutical contracts?	_____	_____
9. Is there a formal program for identifying vendors not previously solicited?	_____	_____

VII. PHARMACEUTICAL INVENTORY MANAGEMENT

A. Is the pharmacy chief responsible for controlling pharmaceutical inventories, including departmental stocks?	_____	_____
1. Are there written procedures for the organization and management of the pharmacy inventory?	_____	_____
2. Is each item dated and priced when received?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
3. Is there a catalog or formulary of pharmaceuticals stocked?	_____	_____
4. Is there a separate list of those items with expiration dates and is this list reviewed regularly?	_____	_____
5. Is the inventory reviewed periodically to remove static, slow moving, or obsolete items?	_____	_____
B. Are perpetual inventory records kept for high-dollar volume and critical items?	_____	_____
1. Are the records kept by people other than those with access to the inventory?	_____	_____
2. Are they used to obtain usage histories for each item?	_____	_____
3. Are the perpetual inventory balances periodically compared to the actual stock and are discrepancies investigated, corrected, and documented?	_____	_____
C. Are annual physical inventories reconciled with accounting department control accounts?	_____	_____

Comments  
(provide data on "yes"  
answers. Explain  
"no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
1. Is the physical inventory taken or supervised by a member of another department (such as the accounting department)?	_____	_____
2. Is the physical inventory verified by the hospital's external auditors?	_____	_____

VIII. FOOD SERVICE

A. If food purchases are made by the purchasing department does the dietary department:		
1. Maintain a list of food suppliers including wholesalers and local vendors?	_____	_____
2. Prepare requisitions?	_____	_____
3. Prepare receiving reports?	_____	_____
4. Prepare return goods memos for any items returned for credit?	_____	_____
B. If the dietary department purchases food, does it have written instructions?	_____	_____
C. If so, are they specific instructions which:		
1. Cannot be changed without review by the purchasing chief or central manager and approval by top management?	_____	_____

<u>Topics &amp; Questions</u>	<u>Comments</u> (provide date on "yes" answers. Explain "no answers")	
	<u>Yes</u>	<u>No</u>
2. Restrict dietary department purchases to food supplies and require it to requisition capital items and other supplies through the purchasing department?	_____	_____
3. Promote maximum use of competition?	_____	_____
4. Encourage the dietary department to purchase other than brand name foods?	_____	_____
D. Do the written instructions require the dietary department to:		
1. Forecast future needs?	_____	_____
2. Record past usage?	_____	_____
E. Does the dietary department maintain the data needed to effectively manage its purchasing functions such as:		
1. Major high dollar value items?	_____	_____
2. Major supply sources?	_____	_____
3. Emergency supply sources?	_____	_____
4. Quantities purchased and prices for each item?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no" answers)

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
5. Usage history?	_____	_____
6. Order frequency?	_____	_____
7. Vendor performance?	_____	_____
8. Product performance?	_____	_____
F. Do the written instructions require:		
1. Issuing purchase orders for all purchases, including those from local retail stores?	_____	_____
2. Prenumbering and controlling purchase orders?	_____	_____
3. Controlling and monitoring emergency purchases?	_____	_____
4. Separating the duties of purchasing, receiving, and storing?	_____	_____
5. Sending copies of the purchase orders and receiving reports to the accounting department for invoice verification?	_____	_____
6. Preparing a return goods memo, which states the amount of credit expected, for all goods returned to the vendor for credit and sending a copy to the accounting department?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
G. Does the dietary department attempt to minimize its purchasing and inventory costs by:		
1. Systematically establishing reorder points and safety stock requirements, to minimize inventory on major items?	_____	_____
2. Using economic order quantity theory to control purchase volume and inventory for major items?	_____	_____
3. Taking advantage of volume discounts?	_____	_____
H. Does someone other than the person who placed the order receive it and prepare a complete receiving report?	_____	_____
I. If the hospital participates in group purchasing,		
1. Is there a list of group contracts and food supplies offered?	_____	_____
2. Must the dietary department justify in writing independent purchases of items available through the purchasing group?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
3. Are these justifications periodically reviewed by management?	_____	_____
4. Are group prices periodically compared with those of other sources?	_____	_____
5. Where the hospital has a choice of purchasing groups, are potential savings compared for representative food supplies?	_____	_____
J. Does hospital policy require the dietary department to competitively contract for its high dollar-value food supplies?	_____	_____
1. Does purchasing supply technical assistance to the dietary department in developing competitive procedures and assure they are consistent with hospital policy?	_____	_____
2. Does the dietary department maintain a list of prospective vendors?	_____	_____

<u>Topics &amp; Questions</u>		<u>Comments</u>	
		<u>(Provide data on "yes" answers. Explain "no answers"</u>	
		<u>Yes</u>	<u>No</u>
K.	Is the dietary department responsible for controlling inventories of food and other supplies?	_____	_____
	1. Are there written procedures for the organization and management of the dietary inventory?	_____	_____
	2. Is the inventory reviewed periodically to remove static, slow-moving, or obsolete items?	_____	_____
L.	Are perpetual inventory records kept for high dollar value and critical items?	_____	_____
	1. Are the records kept by people other than those with access to the inventory?	_____	_____
	2. Are they used to obtain usage histories for each item?	_____	_____
	3. Are the perpetual inventory balances periodically compared to the actual stock and are discrepancies investigated, corrected, and documented?	_____	_____
M.	Are annual physical inventories reconciled with the accounting department control accounts?	_____	_____

Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
1. Is the physical inventory taken or supervised by a member of another department (such as the accounting department)?	_____	_____
2. Is the physical inventory verified by the hospital's external auditors?	_____	_____
N. If food service is provided by contract or other arrangement, does the hospital:		
1. Compare the costs and benefits with those of providing the service in-house?	_____	_____
2. Audit the contractor's periodic billings for food service and determine the reasonableness of the charges?	_____	_____
3. Examine the contractor's records?	_____	_____
4. Compare the contractor's charges for food purchases with prices available under group purchase agreements and other sources?	_____	_____

IX. AUDIT & EVALUATION

A. Is there an audit to evaluate the effectiveness or economy of the various materials management functions, such as purchasing, inventory management, and supply distribution?	_____	_____
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Comments  
 (Provide data on "yes"  
 answers. Explain  
 "no answers")

<u>Topics &amp; Questions</u>	<u>Yes</u>	<u>No</u>
B. Does the central manager or top management periodically evaluate the procedures of the various departments involved in materials management functions to:		
1. Assure consistency with hospital policy?	_____	_____
2. Evaluate efficiency of operations?	_____	_____
C. Are the hospital's purchasing practices and inventory controls monitored by any of the following indexes:		
1. Inventory per bed?	_____	_____
2. Inventory turnover rate?	_____	_____
3. Purchasing cost per \$1,000 of procurement?	_____	_____
4. Purchasing cost per purchase order issued?	_____	_____
5. Out-of-stock condition?	_____	_____
6. Dollar value of inventory?	_____	_____
7. Emergency purchase?	_____	_____
D. Does the hospital use an index to track changes in the cost of cross sections of all major commodity purchases?	_____	_____

AUDIT GUIDE

An Aid To Hospitals  
In Evaluating Purchasing  
And Other  
Materials Management Functions

This audit guide may be used in conjunction with the companion checklist to review in detail all or part of the materials management system.

GUIDELINES FOR AUDITING PURCHASING  
AND OTHER MATERIALS MANAGEMENT  
FUNCTIONS IN PRIVATE HOSPITALS

INTRODUCTION

Hospital purchasing's primary objectives are to economically acquire needed goods and services of acceptable quality and to provide them to the requisitioning unit when needed. This audit guide provides a means for hospitals to test the extent to which the objectives have been achieved.

Who should put the audit guide to use depends on the hospital's size, organization, and interests. Those hospitals with an internal audit staff may want to incorporate this task into the operational audit functions; otherwise this work can be assigned to the purchasing manager, an administrative staff member, or a task force of managers. The results should be communicated directly to the administrator, regardless of who performs the audit.

Financial, legal, and administrative information on the purchasing system should first be collected. Such information includes financial statements, purchasing performance reports, policy and procedural manuals, organization charts, etc. Gathering this information will help the auditor understand the purchasing system and other materials management functions.

Depending on the checklist response and management's interests, the audit guide can be used as a:

- Materials management assessment, with the checklist serving as support.
- Selective assessment of those purchasing functions with the greatest impact or the greatest concern to management.
- Detailed inquiry into weaknesses identified by the checklist.
- Selective test to assure credibility of the checklist responses.

Annual purchases should be analyzed (excluding large nonrecurring capital expenditures) to rank the items according to dollar volume. This analysis can be developed from the vendor invoices or the purchase history cards, if they are accurate and current. If analyzing a year's purchases will delay the audit, a 3-month period should be sufficient for a preliminary ranking. From the ranking of purchases, the auditor should select a cross section of purchased items to review during a "walkthrough" of the purchasing operations. The walkthrough will facilitate detailed testing by accomplishing several audit steps at one time and by increasing understanding of the purchasing process. The selection should include a range of high and low dollar volume items from each commodity group (medical and surgical supplies, food, pharmaceuticals, etc.). If the ranking was based on less than a full year's purchases, then include some cyclical items in the selection.

#### DETAILED AUDIT STEPS

##### I. Purchasing procedures, policies, and practices.

These steps should also be applied to other departments such as pharmacy and dietary, if they are making their own purchases.

##### A. Authority and responsibility

Objective: To assess adherence to the hospital's central purchasing policies, where all or some portion of the purchasing is centralized, and to gauge the effect where the responsibility is decentralized.

Audit steps:

1. Select invoices and the related purchase orders for the most recent purchases of each walk through item.
  - a. Examine these documents to determine if the purchases were authorized and completed by the responsible departments.
  - b. If purchases were completed outside established authority, obtain an explanation from the individuals involved.
2. Where more than one department is purchasing the same items:
  - a. Compare prices paid by the departments.
  - b. Discuss with the hospital purchasing agent and vendors the prices obtainable by consolidating and centralizing these purchases.
  - c. Discuss price differences with the purchasing and other department managers involved.

B. Planning

Objective: To determine if the purchasing department has maintained and used the data needed to effectively manage its purchasing functions.

Audit steps:

1. Interview the department manager and determine the extent of detailed records (vendor files, purchase history cards, usage summaries, etc.) maintained for the department's purchases.
  - a. If the department has accumulated usage data, determine the extent and frequency of analysis.
  - b. Determine (1) if the department has ranked its purchases to identify potential for competition and (2) what use has been made of this information.

- c. Review the department's forecasts of future needs. Determine how the forecasts were prepared and whether they are used in soliciting competition.
  - d. Ascertain (1) what records are maintained on the individual line items and (2) if these records show each purchase's source, quantity, date, and price.
  - e. Review the department's documentation of vendor and product performance and assure that this information is sufficiently detailed.
2. Select invoices for the most recent purchases of each walkthrough item.
    - a. Compare the department's detailed records with the vendor invoices to assure that they agree and all purchases are recorded.
    - b. Follow up on significant discrepancies by observing procedural weaknesses in record-keeping. Discuss discrepancies and related procedural weaknesses with the persons responsible.

### C. Purchasing

Objective: To determine if the department's purchase orders are prepared and processed properly.

Audit steps:

1. Interview the department manager and determine who prepares the purchase orders. Observe the preparation and determine whether:
  - a. The purchase order is filled in completely, including the price and terms, at the time the order is prepared.
  - b. The purchase order is prepared by someone other than the person responsible for receiving and storing the goods.
  - c. A copy of the purchase order is sent promptly to the accounting department and a copy is retained for receiving the goods.

2. Select invoices for the most recent purchases of each walkthrough item and determine whether:
  - a. Orders are issued for all purchases.
  - b. Purchase orders are prenumbered and controlled.
  - c. Nonstock items are purchased only with a properly authorized departmental requisition.
  - d. Emergency requisitions are controlled and monitored.
3. Discuss with responsible staff how the reorder point and order quantity were established for each walkthrough item.
  - a. For each item ascertain how the department determines the safety factor and vendor leadtime. Using the safety factor and vendor leadtime thus established, calculate and verify some of the department's current reorder points. Determine the reason for any differences and assure that the methods used by the department are consistent for all items.
  - b. If the department has not systematically established its reorder point, calculate what the reorder point should be and compare this to the reorder point used.
  - c. If the department uses a quantitative method such as economic order quantity (EOQ) theory to determine order quantities, verify its calculations. Determine that the required inventory ordering and carrying costs are calculated properly and include all relevant factors. Determine whether volume discounts are properly analyzed when order quantities are set.
  - d. If the department has not used economic order quantity theory for its high dollar volume items, calculate the EOQ for these items and compare it to the quantity currently ordered.

- e. Determine whether reorder points and order quantities are reevaluated at least once a year for each walkthrough item.
4. Discuss weaknesses in purchasing procedures with the department manager.

D. Group purchasing

Objective: To determine if the hospital effectively uses group purchasing agreements.

Audit steps:

1. Through discussion with the purchasing manager determine what purchasing groups are available. If necessary, contact other hospitals in the area to identify purchasing groups.
2. If the hospital belongs to a purchasing group, ascertain how the group was selected. If more than one group was available, determine what factors influenced the selection. If the hospital did not compare costs, savings, and other benefits among groups, make this comparison. The savings should be projected on the basis of annual purchases for each item.
3. Evaluate the hospital's monitoring of group prices.
  - a. Determine how frequently the hospital compares group prices with those offered by other sources.
  - b. Examine the most recent price comparisons to assure that they included all high dollar volume items, as well as a representative selection of other items.
  - c. If the group vendor is unsatisfactory or higher priced than other sources, determine whether those conditions have been brought to the purchasing group's attention.
4. Obtain the group's current price list.
  - a. Identify the walkthrough items covered by the group, including equivalent generic as well as brand name products.

- b. Examine recent invoices to ascertain if all purchases of the walkthrough items available through the group were made from the group's vendors. For items which were not purchased from the group's vendors, compare the prices paid with the group prices, discuss these departures with the purchasing manager, and evaluate their reasonableness.
  - i. If the purchases were justified as emergencies, determine if the "emergency" could have been avoided with better planning and scheduling.
  - ii. If the purchases were justified with other reasons, substantiate them. For example, "better service" is a weak justification if the group's vendor provides adequate service at lower prices.

E. Standardization

Objective: To determine if the hospital standardizes commonly used items.

Audit steps:

- 1. Physically inspect the storeroom and major floor stocks. The walkthrough items should be emphasized, but the inspection of medical-surgical, and administrative supplies need not be limited to these items.
  - a. Observe whether the hospital carries different types and brands of items that serve the same functional purpose.
  - b. For each such case, interview the users to determine if a single type and brand would meet their needs.
  - c. List each of the items which offer potential for standardization. Determine the quantities purchased and prices paid for each over the last year.
  - d. For each item calculate the monetary savings and inventory reduction that could have been

obtained if a single brand and type was purchased from the lowest priced source.

2. If the hospital has a standardization committee, review its minutes to determine the extent of the hospital's efforts to standardize these items.
3. Discuss your observations with the purchasing manager.
  - a. Identify any obstacles to standardization and determine what is being done to eliminate them.
  - b. Ascertain and evaluate the reasons for not standardizing.
4. If a pharmacy and therapeutics committee is responsible for drug purchases review its minutes to determine the extent of standardization efforts.
  - a. Ascertain whether the benefits of standardization, i.e., lower inventory costs, lower prices, and reduced clerical work, have been adequately communicated to the medical staff.
  - b. Determine how the committee assures that all opportunities for standardization are realized.
  - c. Review the committee's recent standardization decisions and determine if criteria are applied consistently.
5. Inspect the pharmacy storeroom.
  - a. Observe whether the pharmacy carries different brands which are generically alike.
  - b. List each of the items stocked under more than one brand and determine the quantities purchased and prices paid for each.
  - c. For each item calculate the potential savings if the purchases had been made from the lowest priced source.

6. Discuss your observations with the pharmacy manager as in 3 above.

F. Value analysis

Objective: To determine if the hospital seeks cost reductions by modifying, replacing or eliminating the materials it buys.

Audit steps:

1. Select some of the high-dollar volume walk-through items for value analysis. The selection should include routine items, as well as nonstock purchases of supplies and equipment.
  - a. Interview users of each item and determine whether:
    - i. The item is necessary.
    - ii. Inessential features can be eliminated or other modifications made to reduce cost.
    - iii. The item could be made in-house at less cost.
    - iv. Lower cost substitutes would satisfactorily serve the same purpose.
  - b. Observe the items used by other departments for similar purposes. If different items are used for the same purpose, compare prices to identify a lower cost alternative.
  - c. Contact nearby hospitals and determine if they have been able to eliminate, modify, or substitute for these items.
  - d. If the hospital has a product evaluation committee, determine whether it has evaluated these items and with what results.
  - e. Where potential exists for modifying, replacing, or eliminating an item, calculate the annual savings.

- f. Discuss observations with the purchasing and user department managers. If the hospital does not have a product evaluation committee, suggest forming one.
2. If the hospital has a product evaluation committee, review its minutes to determine the extent of value analysis.
- a. Determine how the committee identifies opportunities for value analysis.
  - b. Identify some specific items that have been evaluated by the committee, including routine, as well as nonstock, purchases of supplies and equipment. Determine for each item the extent to which the committee questioned:
    - i. The need for the item and its usefulness.
    - ii. Special features included in the specifications.
    - iii. The item's cost in proportion to its usefulness and the cost to make it in-house.
    - iv. The availability of lower priced alternatives or substitutes.
  - c. If the committee did not fully evaluate an item, apply audit step 1 above to assess the accuracy of the committee's evaluation.

G. Competition

Objective: To appraise the hospital's measures to obtain competition.

Audit steps:

- 1. Obtain the list of prospective vendors and locate the competitive solicitation files for each department with purchasing authority.

- a. If the hospital has set a dollar limit above which competition is required, identify any purchases of the walkthrough items exceeding this limit which have not been competitive.
  - i. Ask the purchasing agent why competition was not obtained.
  - ii. If a noncompetitive purchase was necessary, evaluate the procedures followed to assure that a reasonable price was negotiated.
- b. For each high-dollar volume walkthrough item available from more than one vendor (but not from the hospital's purchasing group), review the competitive solicitation files.
  - i. Through discussion with the purchasing agent, users, and other hospitals, identify any vendors not included in the solicitation.
  - ii. Determine the reasons for excluding these vendors.
  - iii. Examine the contracts covering these items and determine the contract period for each. If the contracts are less than a year, evaluate the department's justification for the shorter period.
- c. For walkthrough items not bought from the lowest bidder, evaluate the reasons for selecting a higher bid.
  - i. If the purchase was justified as emergency, determine if the "emergency" could have been avoided with better planning and scheduling.
  - ii. If the purchase was justified with other reasons, substantiate them. For example, "better service" is a weak justification if the low bidder provides adequate service.

2. Determine by discussion with the purchasing agent, if any of the hospital's policies, e.g., a "buy-local" policy, restrict competition.
3. Where competition has been inadequate, attempt to obtain competitive prices from some of the excluded vendors or from nearby hospitals that use competitive procedures. With this information, estimate the savings obtainable through competitive procedures.
4. Discuss your observations with the purchasing manager and resolve any questionable areas.

#### H. Receiving

Objective: To determine if the receiving department inspects and accounts for the goods it receives.

Audit steps:

1. Ask the department manager who prepares the receiving reports. If the hospital's size does not permit separate purchasing and receiving departments, determine if it has segregated these responsibilities by assigning them to different individuals.
2. Observe the receiving report preparation to determine whether:
  - a. The receiving reports are prenumbered.
  - b. A receiving report is prepared for all incoming items, including "free" goods.
  - c. The completed receiving reports are sent promptly to the accounting department.
  - d. Credit memos are prepared for all returned goods, showing the amount of credit due.
3. Select invoices for the most recent purchase of each walkthrough item and determine whether:

- a. The paid invoices are supported by signed receiving reports.
- b. The amounts shown on the invoices and receiving reports agree, and any discrepancies have been investigated and resolved.
- c. Credits shown on the invoices agree with the amounts shown on the hospital's credit memos.

I. Capital equipment

Objective: To determine if there is an effective capital acquisition program.

Audit steps:

1. Obtain a copy of the recent capital budget. Sample acquisitions and review the related case files to determine if they include:
  - a. Documentation of requisition, ordering, and payment.
  - b. Justification of the purchase.
  - c. A list of bidders contacted and copies of bids received.
  - d. A summary explaining the hospital's evaluation of the proposals and negotiations with the vendor.
  - e. Comparative cost analyses and revenue projections.
2. Examine cost analyses and revenue projections for completeness and valid assumptions. Verify the calculations.
3. If the cost analyses, revenue projections, and related justification do not support the selection, discuss your observations with the officials responsible for capital acquisitions.

## II. Inventory management

Objective: To determine if the hospital effectively controls its materials inventories.

Audit steps:

1. Inspect storerooms (central stores, pharmacy, food, etc.).
  - a. Observe whether all patient-chargeable items have been priced and dated.
  - b. Check the expiration dates to determine if any expired stock is in inventory.
  - c. Identify items which appear obsolete, unusable, excessively stocked or slow moving. (Such items may be dust covered or stored in remote or hard-to-reach locations.)
  - d. Determine if unofficial or "floor" stocks exist which unnecessarily duplicate supplies in central stores.
2. Perform the following examination for the walk-through items.
  - a. If the items have been dated and priced, compare the prices on the items with applicable invoice prices.
  - b. If there is a catalog, or formulary in the case of pharmaceuticals, determine if the listing of items accurately reflects current inventory.
  - c. Compare the perpetual inventory balance with the amount actually in stock.
3. Observe perpetual inventory keeping procedures and determine whether perpetual inventories are:
  - a. Kept by people other than those who have access to the actual inventory.
  - b. Periodically compared to the physical count, with discrepancies recorded separately and explained.

4. Discuss observations with the department manager and resolve any discrepancies.

### III. Medical-surgical supply distribution

Objective: To determine if the distribution system assures effective control over medical-surgical supplies.

Audit steps:

1. If the hospital has not centralized distribution of medical-surgical supplies, examine a sample of user department requisitions.
  - a. Determine if they were prepared in accordance with established procedures.
  - b. If central supply controls patient chargeable medical-surgical supplies, select several departments for examination.
    - i. Review each department's storeroom requisitions and determine if patient-chargeable items were issued directly to the departments.
    - ii. If so, compare and reconcile patient charges with the department's receipts during the same period.
  - c. Discuss your observations with the central stores and central supply managers. Determine how they monitor user departments for evidence of stockpiling, obsolescence, pilferage, and waste.
  - d. If it appears that patient charges are being lost, estimate the amount of charges lost for the period reviewed.
    - i. Discuss your observations with the department managers and determine how they assure accountability for patient charges.
    - ii. Discuss your observations with the accounting department manager and determine how the department monitors control over patient-chargeable items.

2. If the hospital has centralized distribution of medical-surgical supplies, determine what department is responsible for distribution and the type of system used. Observe the distribution of chargeable supplies and the processing of charge slips.
  - a. If PAR level or exchange cart systems are in use determine whether:
    - i. Charge tickets are reconciled with usage at the time supplies are replenished.
    - ii. Discrepancies are investigated and, if the patient owing charges cannot be identified, the using department is charged with the loss.
  - b. If the supplies are obtained by requisition, observe the procedures. Determine whether a charge ticket is prepared by the requesting department before supplies are issued to patients.
  - c. If it appears that patient charges are lost, estimate the amount for a representative period.
  - d. Discuss procedural weaknesses and problems identified with the manager responsible for the distribution system.

#### IV. Linen distribution and control

Objective: To evaluate controls over linen distribution and usage.

Audit steps:

1. Determine annual linen replacement costs.
2. Observe procedures for distribution and accountability for linen use. Look for the following controls:
  - a. Central distribution methods (e.g., PAR level, exchange carts) are used to issue linen.
  - b. Records are maintained on all linen issued to user departments.

- c. Usage records are analyzed and apparent misuse is promptly investigated.
  - d. Linen issued to user departments and linen returned for processing are compared.
  - e. User departments are periodically checked for hoarding.
  - f. All hospital linen is periodically inventoried.
  - g. Access to linen storage areas is restricted after normal working hours.
  - h. New linen is kept in central stores until needed.
3. If these features are not present, discuss your observations and the reasonableness of linen replacement costs with the materials and laundry managers.

V. Contracted services

Objective: To determine the extent of controls over contracted services.

Audit steps:

1. Obtain a list of all current contracted services. Review a sample of contract files for the following documentation.
  - a. A properly completed and approved purchase order.
  - b. A current contract, with any addenda.
  - c. A summary of contractors solicited to provide good competition.
  - d. A record of negotiations.
  - e. A record of alternatives considered, such as providing the service in-house.
2. For a sample of maintenance and service contracts, determine if the hospital maintains a service log for each contract. If a service log is maintained:

- a. Determine if the contractor's service visit fulfill the terms of the agreement.
  - b. Verify the log entries by discussions with the equipment users.
  - c. Obtain the equipment user's views on the adequacy of the contractor's performance.
3. Verify a selection of vendor invoices for the sample of maintenance and service contracts.
- a. Ascertain whether they agree with the service log. If a service log has not been maintained, reconstruct this information by discussion with equipment users and other personnel familiar with the contractor's visits.
  - b. Compare the invoice rates with the contract to assure that the correct rate was charged.
  - c. Verify extensions, footings, and subtraction of discounts.
4. If the vendor payments are incorrect:
- a. Compute the difference.
  - b. Observe procedural weaknesses contributing to payment errors.
  - c. Discuss your observations with the materials manager and accounting department manager.

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